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# **NAVAL POSTGRADUATE SCHOOL**

**MONTEREY, CALIFORNIA**

## **THESIS**

**TERRORIST NETWORKS, MONEY LAUNDERING  
SCHEMES, AND NATION STABILITY**

by

Bryan Mott

June 2010

Thesis Advisor:  
Second Reader:

Doowan Lee  
Marcos Berger

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**TERRORIST NETWORKS, MONEY LAUNDERING  
SCHEMES, AND NATION STABILITY**

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Lieutenant, United States Navy  
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Submitted in partial fulfillment of the  
requirements for the degree of

**MASTER OF SCIENCE IN DEFENSE ANALYSIS**

from the

**NAVAL POSTGRADUATE SCHOOL  
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## **ABSTRACT**

The purpose of this thesis is to provide the audience with a point of view perspective regarding the evolution of circumstances that lead to the formation of terrorist networks, organized crime, illicit activities, (etc.), and to present how these criminals utilize money laundering schemes to further their respective positions in society from a socio-economic perspective. Subsequently, this paper discusses how terrorists and/or organized crime members utilize weak nation-state infrastructures to capitalize on money-laundering schemes; thereby, using the debilitating effects of financial crimes to keep nation-state institutions in a perpetual condition of instability. The ultimate aim of the criminal/illicit behavior and activities is to create, refine and execute more efficient ways to further their respective cause placing themselves in positions that yield even greater power over the systems they continually exploit. Ultimately, these criminals continue to exploit the weaknesses of the nation-state infrastructures to gain and maintain a decisive advantage over society at large if left unchallenged.



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## **LIST OF ACRONYMS AND ABBREVIATIONS**

CPI	Corruption Perceptions Index
CPSU	Communist Party
FATF	Financial Action Task Force on Money Laundering
GDP	Gross Domestic Product
GG&DO	Government Gold & Diamond Office
KPCS	Kimberley Process Certification Scheme
NGO	Non-Governmental Organizations
OCC	Office of the Comptroller of the Currency
PMC	Private Military Company
SFTF	State Failure Task Force

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## **I. INTRODUCTION**

### **A. STATEMENT OF PURPOSE AND SCOPE**

The purpose of this analysis is to help address U.S. and international community concerns regarding the transnational need for adequate understanding of the characteristics of failed nation-states. This brief analysis generally focuses on particular states or regions to illustrate indicators and causal factors of failed nation-states, such as money laundering. The shared need to ensure foreign and security policy goals are met to ensure that personal and economic security is secured for generations to come is imperative.

The scope of this analysis is to consider the capability of stability operations across the entire spectrum of nation-state conflict from direct action and historical case data. To accomplish this objective, it is first necessary to examine the specific characteristics indicative of state failure that can assist stability/reconstruction operations regarding tactical, operational, and strategic executions of their duties in at-risk environments. This analysis allows those with a vested interest in issues concerning the at-risk nature of failing or failed states to access more resources; thus, enabling the formulation of policy/strategy necessary to nation-state success world-wide.

### **B. BACKGROUND**

Regardless of whether state-failure bases its origins on civilizations accustomed to the tenants of colonialism or innately “separate” cultures having been integrated into new states not based on common identities, the nation-state continues to fail in many ways (Spielvogel, 2002). This research arises from a need to identify which currently stable nation-states have the greatest likelihood of becoming unstable or failed do to degrading socio-economic factors, such as collusion and money laundering. Further, this research seeks to identify through cost-to-interest analysis, levels of state (and other) interest and its corresponding cost expenditure at that particular level. These research findings can be utilized as a tool by the U.S. government, NGOs, and other organizations, to determine or



prioritize the allocation of funding and other resources better throughout the various stages of state failure based upon the current and/or foreseeable indicators of the respective state.

## **C RESEARCH QUESTION**

What conceptual and theoretical approaches are most useful in helping identify which currently stable nation-states have the greatest likelihood of becoming unstable?

## **D. NESTED RESEARCH QUESTIONS**

Conducting this analysis addresses the following questions.

- Which internationally accepted at-risk or failed state risk factors are predominately identified in state failures?
- Which regime types are historically prone to state-failure?
- What cumulative social identity types are significant to various levels of state failure?
- Is there a relationship between state interest and level of stability effort/mission funding?

## **E. LITERATURE REVIEW**

The author's analysis utilizes "Game Theory," personal construct theoretical framework, and other socio-psychological approaches to develop strategies to help identify which currently stable nation-states have the greatest likelihood of becoming unstable. Kelly identifies and utilizes the personal construct approach to draw from habitual patterns and distinctive qualities of and individual's physical and mental expressions to distinguish individuality (Burger, 2000). He states that people continually "generate and test hypotheses about their worlds." This innate trait is suggested to be a mechanism that people utilize to predict what one believes can happen. Additionally, this theory asserts that personal constructs that individuals tend to keep are suspected to be the ones that prove most useful. Ultimately, the retained constructs are subsequently considered as valid templates in forming individual attitudes.

Like-minded individuals tend to migrate towards other individuals or peer groups that share their inclination to move or act in a particular direction or way consistent with similar disposition(s) to some action or end-state. Again, this type of corroboration maintains or allows for the provisions for advancements in personal or institutional goals/objectives.

As succeeding generations cultivate or grow a society as a whole through the previously delineated mechanisms, it is possible to see how a clear pattern is exhibited towards the support of a characteristic decreased government and increased personal interests. The inherent nature of such an organization is typically to gain influence and control for those with already increasingly large holdings and not to maintain the concept of long-term identity. This being stated, it can be seen how the negligent mismanagement of the aforementioned independent variables can lead to deficiencies that ultimately translate into poor government and subsequent failed statehood.

Basic conditions of statehood inadequately tended to and/or consistently miscalculated, again, tend to lead to failure. Some common provisions indicative of internationally accepted standards of statehood are listed with the Fund for Peace as “The Twelve Indicators of State Vulnerability” (Fund for Peace, 2009). Here, these indicators are used as a gauge to measure a state’s vulnerability to collapse or conflict. Attention is given to the primary categories of social indicators, economic indicators, political indicators, and violation of human rights. The primary categories further delineate examples of circumstances that may occur in each of the respective categories.

For this research project (for instructional/illustrative purposes), the author plans to focus on the variable instability indicator, such as criminalization/delegitimization of the state and its financial institutions through money laundering, as it relates to the critical state of infrastructural well being of a nation. Many other variable indicators can be used in replace of money laundering to identify nation-state infrastructure conditions of a particular state. Again, the assumption is that high instances of money laundering indicate low efficiency of financial institutions and its relative costs to society thereof. Degradation of financial systems can lead to uneven distribution of wealth within a particular social setting. Unrest, civil disobedience, and subsequent criminal

incidents/attacks occur within these settings, costing the local (as well as international communities) millions of dollars. Index Mundi, a detailed resource for country statistics, charts and maps compiled from multiple sources, such as the CIA Factbook, states that there is a 0.2% increase in degree of inequality in the distribution of family income in Peru from 2009–2010 (Gini Index 49.8 to 52, respectively). This rate is often used as an indicator of a level of economic health in Peru during the stated timeframe (Index Mundi, 2009). The author, provided this information and his assignment of valued cost to wealth distribution, plans on providing resource information that assists officials in their identification and allocation of nation-state interest projects for funding. Ntalaja and Everaers (2004) define measures for similar areas of governance that can detect irregularities within a government. Associates for the RAND Corporation (2009) created a publication for the effective navigation of post-conflict environment and suggestions for the proper use of resources thereof.

## **F. METHODOLOGY**

The intent is to analyze existing principles, survey data, and commonly accepted practices in order to determine whether adequate factual information exists to support a conclusion that an appropriate relationship occurs between personal construct, empathy (social theory), social action (collusion/violent acts/illicit behavior), internationally recognized state failure indicator analysis, and subsequent state failure. From that analysis, interest (U.S. government/NGOs/other) is identified and an approximate cost-to-interest analysis done to weigh levels of state instability to actual cost.

This thesis reviews case studies concerning money laundering, socio-economic effects, state instability/failure operations, and interest-to-cost analysis involving the same to provide anecdotal evidence where applicable and to highlight and discuss potential antecedent conditions that enhance the effectiveness of failed-state response.

## **II. GAME THEORY**

### **A. GENERIC GAME: COLLUSIVE ACTS/CRIMINAL ACTIVITIES— SIMULATED CASES OF PERU, SIERRA LEONE, AND RUSSIA**

This section of the thesis utilizes “Game Theory” and socio-psychological theories as utility tools to access and analyze available historical data concerning stable, at-risk, and failed nation-states; thereby, providing supplemental resources to U.S. government and non-governmental organizations (NGO) enabling them, and others, further resources when dealing with prevention, sustainment, and reconstruction policy and practice efforts, as a whole, in state failure. The overall assertion is that permissive environments lead to higher levels of criminal acts and collusive activities; subsequently, leading to nation-state deterioration and instability. Various pay-off scenarios are explored in this problem to illustrate.

Various reports and assessments were utilized to assess the stability and political risk of countries by focusing on key economic, social, and political indicators, including as applicable, their relations with other countries in the region and local issues.

Research associates from various organizations dealing with state conflict and sustainable development estimate that due to time and labor involved, the cost of creating a new country assessment starts at \$5,000 (Fund for Peace, 2009). Adequate reports, surveys, and other publications are available concerning state-failure and suggested indicators and causes.

### **B. GENERAL/HYPOTHETICAL SCENARIO INFORMATION FOR PROJECT PURPOSES**

- Level of nation-state stability in relationship to number of laundering incidents/attacks
  - Stable—1 laundering incident/attack
  - Weak—3 laundering incident/attacks
  - Failing—6 laundering incident/attacks
  - Failed—10 laundering incident/attacks

- Prevent Attack/Build City
  - Players:
    - Player 1: Governments of the developed world (U.S., Europe.)
    - Player 2: Governments of the developing world (Peru, Sierra Leone, Russia)
- Generic Situation
  - An investment of \$2 billion is needed to stop attacks.
  - It can produce an economic benefit of \$12 billion, which is to be split equally between the players.
  - If the investment is not made, there economic losses can reach \$12 billion, which is to be split equally between the players.
  - If both parties agree to contribute, each need only invest \$1 billion.
  - If only one party contributes, it must invest \$2 billion.

\*\*Game Theory Sample problem derived from Model Conflicts SO4410 course instruction at NPS, as well as from sample Schecter/Zeehan/Iams “Global Warming” sample problem guide.
- Monies for Reconstruction & Stabilization Efforts
  - \$323,272,000.00 Total Civilian Stabilization Initiative
  - \$106,400,000.00 to recon/stab
  - Seven countries per fiscal year
- American Academy of Actuaries insured losses (relatively same sized/populated foreign cities/nations can be substituted)

City/State	Population
New York, NY	8,400,000
Washington, D.C.	595,000
San Francisco, CA	824,525
Des Moines, IA	197,000

City	Attack/Incident Cost per Billion per Person
New York	1 Billion/700K = 1,428.60/person (17,143.2/12 Billion)
Washington, D.C.	1B/99,167 = 10,084/person
San Francisco	1B/91,667 = 10,909/person
Des Moines	1B/65,667 = 15,228/person

## 1. Scenarios

### a. *Non Incentive Scenario*

	Developing world		
	invest	refuse	
Developed world	invest	(1, 1)	(0, 2)
	refuse	(2, 0)	(-2, -2)

**Are there Pay-offs**

**Economic Pay-Offs**

	Developing world		
	invest	refuse	
Developed world	invest	(1, 1)	(0, 2)
	refuse	(2, 0)	(-2, -2)

Here, “additional noneconomic payoffs important to the governments of the developed world are investigated:

- If the governments of the developed world agree to invest, they receive approval from their citizens and the rest of the world that they value at \$1 billion.
- If the governments of the developed world refuse to invest, they receive condemnation from their citizens and the rest of the world that they value at -\$1 billion” (Schecter, Zeeman, Iams; SO4410 NPS).

### b. *Incentive Scenario*

**Economic Plus Non-Economic Pay-Offs**

	Developing world		
	invest	refuse	
Developed world	invest	(2, 1)	(1, 2)
	refuse	(1, 0)	(-3, -2)

## 2. Strategies

### a. Dominant Strategies

One player's strategies dominate another if it gives the person a better payoff against any choices of strategies by the other player.

First attack prevention game, economic payoffs only:

Developing world			
		invest	refuse
Developed world	invest	(1, 1)	(0, 2)
	refuse	(2, 0)	(-2, -2)

-No Strategies dominate here.

First attack prevention game, economic plus noneconomic payoffs only:

Developing world			
		invest	refuse
Developed world	invest	(2, 1)	(1, 2)
	refuse	(1, 0)	(-3, -2)

-Dominate strategy ("A") here.

### b. Strategic Moves

Defining criteria for strategic moves is as follows.

- "A" represents the Developed World's strategic move to contribute to foreign nation-state stability.
- "B" represents the Developed World's strategic move to not contribute to foreign nation-state stability.
- "C" represents the Developing World's strategic move to contribute to foreign nation-state stability.
- "D" represents the Developing World's strategic move to not contribute to foreign nation-state stability.

- A dominant strategy exists for Developed World to contribute to foreign nation-state stability.
- No dominant strategy exists for Developing World.
- A Nash Equilibrium occurs at (1, 2) during a pure strategy game.
- The likely outcome without communication would be (1, 2).

From the perspective of the Developed World (D'ed W), next to be determined is if there is a First Move (open communications between Developed World and Developing World).

- Should Developed World move first:
  - If D'ed W. does A, then the D'ing W. does D, implies outcome (1, 2)
  - If D'ed W. does B, then the D'ing W. does C, implies outcome (1, 0)
  - Thus, the D'ed W. chooses outcome (1,0); the better option from their perspective. It is does not increase their position from (1, 2) but does decrease the position of D'ing W., which subsequently, puts D'ed W. in a better position.
- Should Developed World force the Developing World to move first:
  - If D'ing W. does C, then the D'ed W. does A, implies outcome (2, 1)
  - If D'ing W. does D, then the D'ed W. does A, implies outcome (1, 2)
  - The D'ed W. moving first results in outcome (1, 0), and forcing the D'ing W. to move first results in (1, 2). Forcing the D'ing W. to move first empirically puts the D'ing W. in a slightly better position (1, 2) than the D'ed W.'s first move (1, 0); however, neither has a first move that benefits either any better than the likely outcome without communication (1, 2).

Next to be ascertained is if either has a viable threat (hurts both) to issue the other. The D'ed W. wants the D'ing W. to play C, so they threaten D. If D'ing W. does D and the D'ed W. does the opposite of what it logically should do (hurting itself), then D'ed does B, yielding outcome (-3, -2). Now normally, if D'ing W. does D, then D'ed W. (helping itself) does A, yielding outcome (1, 2). Thus, it can be seen that, yes, D'ed W. has the option of a threat. The previous moves hurt both D'ed W. and D'ing W.



Confirming the threat option, the following is noted. If D'ing W. does D, then D'ed W. does B, implies outcome  $(-3, -2)$ . If D'ing W. does C, then D'ed W. does A, implies outcome  $(2, 1)$ . Thus, it can be seen here that, yes, the threat works because D'ing W. chooses C just as the D'ed W. wanted.

Checking to see if D'ed W. can issue a promise (hurt itself, help D'ing W.), the following is found (with the understanding that D'ed W. wants D'ing W. to play C). If the D'ing W. does C, then D'ed W. (hurting itself) does B, the outcome yields  $(1, 0)$ . However, if D'ing W. does C, then D'ed W. (optimizing for itself as it normally would) does A, outcome is  $(2, 1)$ . Thus, there is no promise because, although the moves hurts D'ed W., it also hurts D'ing W. Again, there is no promise.

Summarizing the analysis thus far, note that the D'ed W. has a viable threat, but does not have a first move, promise, or combination. The D'ing W.'s first move (if taken  $(1, 2)$  is better than D'ed W.'s  $(1, 0)$  first move if taken); however, neither has a move that is better than the likely outcome of  $(1, 2)$  without communication.

### C. SECURITY LEVEL

It has been seen that the only strategy thus far is that D'ed W. can benefit unilaterally by threatening D'ing W. Next, each player's security levels is analyzed. The objective is for the player being analyzed to maximize its outcome while its opponent tries to minimize the other's outcome. The security value is what remains from the respective game's analysis.

#### D'ed W.'s Security Level: D'ed W. Max., D'ing W. Min (D'ed W. Pay-Off)

	Developing world			
	invest	refuse		
Developed world	invest		(2)	(1)
	refuse		(1)	(-3)

Here, the D'ed W. is trying to maximize its outcome and the D'ing W. is trying to minimize the D'ed W.'s outcome. In this scenario, (played alone) both have dominant strategies: D'ed W. has an "A" strategy and D'ing W. has a "C" strategy. The Nash Equilibrium is 1 and D'ed W.'s security level is 1. The Prudential strategy for D'ed W. is A.

	Developing world			
	invest	refuse		
Developed world	invest	(1)	(2)	
	refuse	(0)	(-2)	

Next, D'ing W.'s game is evaluated when played alone. Here, the D'ing W. is trying to maximize its outcome and the D'ed W. is trying to minimize D'ing W.'s outcome. D'ing W. has no dominant strategy in this scenario. The D'ed W. has a dominant strategy of B. D'ing W.'s security level is 0 and a Prudential Strategy of C.

Looked at from an individually played perspective, note that the security levels of the D'ed and D'ing W.s are (1, 0), respectively.

In closing, regardless of whether society wants to admit its existence, a relationship exists between needs, attitude, action, and subsequent instability and failed statehood, which should be thoroughly reviewed and understood when making policy and strategy regarding organized revolt and state failure. Further, it is very important to be able to see these relationships to mitigate the many challenges that accompany any organized revolt and state instability. Miscalculation can lead to the failure of key battle strategies. Inaccurate interpretation, and even blatant neglect of state instability or an adversary's structural and strategic intentions, can also lead to terminal outcomes. The insurgency, in general, requires the support of the population in the form of people, guns, and money. It continuously attempts to impose upon and solidify controlling relationships over the people; all the while, manipulating equality for its own benefit. The state attempts to gain an information advantage to detect and engage the counter-state. Both are waging their respective battles in calculated progressions. It is a dynamic struggle within an ambiguous administrative body—both sides fighting for the most accurate

feedbacks from the indigenous population; both sides contending for optimal control of the state. The author asserts that by utilizing Game Theory modeling as a resource tool to assess/calculated losses of prevalent areas/issues of nation-state instability accurately, societies can create effective policies and regulations to decrease the symptom indicator variables drastically and permanently that lead to state failure as a whole. This, in turn, can generate more productive citizens in their respective societies, as well as a more receptive international community to their trade ideas. One step at a time; the world can continue to strive more effectively to become a better place for everyone to live.

#### **D. RESEARCH PLAN**

- Historical
  - Laundering or other incidents that contribute to Peru, Sierra Leone, and/or Russia becoming weak, failing, and failed.
  - Select scope of empirical observation (countries most likely to fail i.e., Peru/Sierra Leone/Russia).
  - Compare/contrast and illustrate research data utilizing Game Theory and general data analysis.
- Surveys—Looking for indicators of the following.
  - UND Human Development Index
  - Transparency International’s Corruption Perception Index
  - Freedom House’s Freedom of the World Report
  - Fund for Peace Failed State Indicators
  - Political Instability Task Force Report
- Mathematical Model (Linear Program Optimization)
  - Develop a value system (utility theory) to compare various situations/incidents of money laundering against the relative social cost.
  - The principle modeling is the development of a value system.
- Utilizing this model as a resource contributor that assists in decreasing money laundering/collusion rates of the following.
  - Peru, Sierra Leone, and Russia and their respective incidents of money laundering/collusion over a given period.

- Utilizing this model as a resource contributor that assists in decreasing nation-state instability due to high levels of money laundering to instability indicator ratio (Fund for Peace data, National Counter Terrorism Data):
  - Countries moving from instability to relative stability
    - Angola (11 laundering incidents/collusion acts/attacks; pop.: 17,000,000)
    - Liberia (six laundering incidents/collusion acts/attacks; pop.: 3,490,000)
    - Rwanda (10 laundering incidents/collusion acts/attacks; pop.: 10,180,000)
  - From Relative Stability to Instability
    - Cote d'Ivoire (31; pop.: 18,900,000)
    - Chad (40; pop.: 10,330,000)
  - High Risk Countries that Have thus Far Avoided Civil War
    - Guinea (three; pop.: 10,058,000)
    - Zimbabwe (19; pop.: 8,500,000)

## **E. CONCLUSION**

- Intend to verify the following.
  - Collective empathies/actions leading to failed/failing statehood often develop from conditions of uneven wealth distribution, poverty or extreme want.
  - Needs hierarchy can be associated with personal constructs, actions, and failed statehood.
  - Utility theory can be utilized to identify probabilities associated with attitudes historically leading to destructive action and subsequent failed statehood.

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### **III. TERRORISM AND DEMOCRACY**

People, arguably, want their lives to be as orderly, safe, and predictable as possible. In general, citizens of a particular social regime remain relatively complacent regarding rules and regulations as set forth by the incumbent regime so long as their basic needs are being met by that regime's administration. History often provides the illusion that as long as the basic physiological and safety needs of a particular population are considerably and consistently being met, its citizens generally remain satisfied with the status quo; or the way things are; or how it is... at least until they are confronted with a need to "put the issue of political change on the public agenda" (Crenshaw, pp. 7–20). Martha Crenshaw states, "extremists seek either a radical change in the status quo, which would confer a new advantage, or the defense of privileges they perceive to be threatened" (Crenshaw, pp. 7–20). Maintaining the status quo, per se, as a relative strategy, is arguably not very difficult. It may be pragmatically integrated into governance measures often as a means for elected officials to control the development of the respective society democratically. As a whole, when citizens consistently perceive that governing institutions generally make provisions to mitigate their concerns for safety and various other issues pertaining to the preservation of their basic needs within a social network structure, their typical tendency is uniformly to remain amicable to the conditions as set for by policies of that governing administration. To put it bluntly, regimes understand that people (overall) tend to go with the flow when they are basically content. These regimes, thus, strive to create policies that meet basic social needs that influence various levels of a citizen's satisfaction and complacency regarding social circumstances, and with respect to, that administration's governing body (Gui & Costopoulos, pp. 119–129).

Regardless of whether ideological, political, religious issues exist within a society, if there is a continual neglect and mismanaged of the grievance resolutions, the respective social networks become increasingly dissatisfied. This has been historically seen in many nation-states fouled with corrupt and inadequate leadership. Both the

regime and the social groups are organized arrangements of interrelated elements of society that form a larger, entity, which in this case, is the institution of the state and/or counter-state system.

The author asserts that the world would witness the development of fewer terrorist networks if every country were an established and functioning democracy. These functioning democracies would tend to serve required infrastructural frameworks better that would efficiently mitigate corruption/collusion between illicit industries and persons, money laundering schemes and other crimes, such as terrorist financing. Ultimately, nations would subsequently be more capable of applying more suitable measures towards the improvement of its stability.

The author's assertion stems from the analysis of historical data and social indicators made available by/through various academic institutions, research facilities, and scholars, to facilitate the measure of internationally accepted socio-cultural standards. These data are made available to better quantify nation-state stability/instability and subsequent development of terrorist networks activity and money laundering as a whole. The indicators can be correlated to civil disapproval of regime and subsequent other factors escalating into violent acts of terrorism through the exploitation of various networks. Again, when the state fails to meet the basic needs of its inhabitants, the unanimity of the citizens' desire to support the regime breaks. Their support for the incumbent leaders often transitions to the growth and maintenance of a rebellion with subsequent acts of terrorism. However, before investigating the evolution of civil-regime commitment, it is first necessary to define terrorism and democracy, and then state how they relate.

#### **A.     TERRORISM AND DEMOCRACY DEFINED AND CORRELATED**

The United States Code (the governing law for the United States) title 22, Ch. 38, Para. 2656f(d) defines terrorism as “premeditated, politically motivated violence perpetrated against noncombatant targets by sub-national groups or clandestine agents”

(U.S. Code, 2009). Democracy is defined as either a political government executed by the people (direct democracy) or the power to govern is granted to the elected representatives (representative democracy) (WikiDemocracy, 2009).

Utilizing their Global Model to identify factors associated with the risk of all types of state failure in all countries, the State Failure Task Force (SFTF) found that “the strongest influence on the risk of state failure” was regime type (SFTF, 2000). Additionally, the task force also found “the odds of state failure to be seven times as high for partial democracies as they were for full democracies and autocracies” (full democracies and autocracies have roughly equivalent odds of failing) (SFTF, 2000, p. 34).

Full democracies/autocracies typically have stronger leaders and more effective legislatures than countries with partial democracies. Limits on free speech, uneven wealth/property distribution, unfair voting and fraudulent election procedures are other characteristics prevalent in nations with higher tendencies of failure. Prime examples of ineffective governments are the Fujimori Regime in Peru and South Africa’s Apartheid (SFTF, 2000, p. 34).

Given the historical data, it can be seen that the longevity of partial or other democratic hybrid regime types are relatively short lived. This being said, effective mechanisms for monitoring the consistency of partial democracies should be strictly and vigilantly the focus of regime officials observing their institutions for trends towards state failure (SFTF, 2000, p. 34). SFTF reports that effective lawmaking legislature’s capabilities and “executive constraining” powers are the most discernible differences between the characteristics of full and partial democracies (p. 36).

Generally speaking, when social contracts are not met by the regime (which is typically the case in failing or failed non democracies), citizens become increasingly frustrated, displeased, and ultimately, become detached from their perceived responsibilities to the regime’s administration. Feelings of indignation begin to arise as the society develops feelings of having been wronged (Kraut, 1986, p. 642). When the administration’s formal grievance process is tested and found to be inadequate, civil



unrest occurs; further placing strain on the regime's already diminishing capacity. Finally, the regime's negligence, violence, or inability to provide for society's basic human needs reaches a point where many of the frustrated social group begins to resort to taking illegal independent or group action. Depending on the level of frustration or wrong considered to have been committed by the regime's administration, the participants of the civil unrest may further escalate into committing acts of terror as a means of coercing the sought after change. An evolution of citizen approval and disapproval of regime follows to depict this assertion further.

## **B. CAUSES AND CONDUCT**

### **1. Evolution of Citizen Trust, Approval of Regimes**

In his book "Trust," sociologist Professor Piotr Sztopka provides his theoretical model for trust as it fundamentally relates to the actions of mankind (Sztopka, 1999). As he defines various functional and foundational elements of trust, one can clearly see how parties involved in trust networks navigate within the complex subtleties of rational reasoning regarding their conceptions of an individual's competencies, reliabilities, and/or level of honesty as it reflects that individual's trust and support of a network (Sztopka, 1999). Sztopka utilizes empirical data to show how cultures of trust develop, specifically by discussing instances of growth in countries like Poland after the collapse of communism (Sztopka, 1999). Steve Ressler further supports previous assertions of network development with his description of how these "complex" yet "simple" networks "form the structural basis of many natural events, organizations, and social processes" (Sztopka, 1999). Both Ressler and Barabasi agree that the basis of social network analysis is "that individual nodes ... are connected by complex yet understandable relationships that form networks (Sztopka, 1999; Barabasi, 2002). These relationships are key in the development of various levels of trust, which subsequently evolve into networks. In their publication, "The MiTT and Its "Human Terrain," Lieutenant Colonial McConnell et al., discuss various component levels of

building a relationship as being respect, relationship, trust, and team (McConnell, 2007). His assertion is that patience must be maintained throughout the entire process, which “ultimately builds a team” concept among its members (McConnell, 2007).

## **2. Social Discontent, Disapproval of Regimes and Formation of Terrorist Networks**

Most participants of a particular social group or network, through birth or other means, thoroughly understand that by their generally lawful adherence to the governing statutes of the incumbent network and varying regimes, comes the assurance of certain civil-privileges and protections. However, when the onset of mainstream industrialism from the late 19th through 20th centuries brought about dramatic social and economic changes throughout many societies, a redefining of the status quo also occurred (Spielvogel, 2002). Material possession, for the most part, had long been the measure of social relevance among citizens, and with relevance comes acceptance, and with acceptance, comes privilege, regardless of how undue those privileges may have been. Many citizens maintained silence in many instances of inequity, settling for the social divisions brought about by the industrial change; however, discontent subtly lingered as the rich got richer, bringing about further class restrictions and subsequent subjugation of the less fortunate. While the elite, so to speak, enjoyed a time of comfort and luxury, continuous structural and functional changes within the various social settings occurred (Spielvogel, 2002).

Niall Ferguson discusses just how destabilizing economic growth and change can be to a society (Ferguson, 2006). Ferguson specifically talked about the issues of instability brought on by ethnic variance and economic decline, among other things. The structural and functional changes, subsequently, greatly influenced the common opinion that the overall power achieved by the society was indirectly related to their ability to expand their wealth and social esteem perception bases. In other words, if the city-state prospered materially, it obviously was prospering and (overall) simultaneously experiencing the successes of humanistic growth (Spielvogel, 2002).

With the growth of markets and societies came the need for refined legislation. The rules of conduct established by the people, for the people, increasingly began to not feel as such. Rules principally expected to observe and enforce unvarying justice, began apparently to diminish the liberties and opportunities of those they stood to protect. With the coming of globalization, the “sovereign state” would no longer seek to “promote its interest as defined by its governing elite” (Keylor, 2009).

Optimally, a sound, stable, and fair rule of law should apply equally to all citizens residing within their respective nation-state system. However, the administration of just and equitable rule of law has arguably been a point of failure across the spectrum of stable, failing, and failed nation-states alike. Plato wrote, “where the law is subject to some other authority and has none of its own, the collapse of the state, in my view, is not far off; but if law is the master of the government and the government is its slave, then the situation is full of promise and men enjoy all the blessings that the gods shower on a state” (Cooper, 1997). When a nation’s law is driven by corruption or some other socially diminishing influence, its resulting state or condition is the inevitable loss of its power and functionality. From this point, the citizens begin to lose trust and allegiance in the degraded social system as a whole, subsequently developing into a situation of ultimate unrest. As a final result, the probability of rebellion within this degraded state becomes more of a certainty as historically witnessed in many countries (i.e., Peru and Sierra Leone), as discussed in the next chapter.

## **IV. CASE STUDIES**

### **A. PERU: EXAMPLE OF CIVIL DISAPPROVAL/AGGRESSION AS FACTOR OF TERRORIST NETWORKING AND NATION INSTABILITY**

In Peru, one can see that the disapproval of processes leading to inadequate and inequitable socio-political structures and vastly uneven capital/land distribution have historically been known to reveal and give rise to organizations, such as the Maoist guerrilla organization, the Sendero Luminoso or Shining Path. The belief of the Shining Path was that by its imposition of a dictatorship on Peru, it would merge the capitalist class society and the classless communist society into a transitional socialist state. Ultimately, civil frustration and subsequent aggression within the various cultures of Peru predominated (State of Fear Video and Lecture, November 30, 2009, December 2, 2009).

Baron and Byrne discuss social and personal factors and the related levels of satisfaction regarding their investigated perspectives of aggression. Baron and Byrne (2000) state, "...aggression stems mainly from an externally elicited drive..." (p. 443). This theory suggests that circumstances outside of an individual's control "can arouse a strong motive" and lead "...to overt acts of aggression" (Baron & Byrne, 2000, p. 443).

Baron and Byrne (2000) also discuss the importance of social influence. They define social influence as "the efforts by one or more individuals to change the attitudes, beliefs, perceptions, or behaviors of one or more others. (p. 356). They argue that the phenomenon of social intrusiveness is a fact of life that is common among all walks of life. The type of commonality shared here contributes to forming the requisite homogenous system of values needed to establish credibility of the Shining Path's structural make-up. The organization originally solicited the support of the population, which however, gave way to a subsequent evolution of indiscriminate acts of violence from the 1960s (TRC Conclusions, pp. 243–258).

The commonalities shared by the citizens of the peasant class (i.e., culture, language, location, and conditions) were of significant importance considering the fact that Peru officially recognizes American Indian, European, African, and Asian ethnic

groups all speaking variations of the Spanish language with diverse cultures (WikiPeru, 2009). The Shining Path used these commonalities to its advantage regarding formation and recruiting. The TRC established “that there was a significant relationship between poverty and social exclusion and the probability of becoming a victim of violence (TRC Conclusions, pp. 243–258). The Shining Path was able to form and grow largely due to its ability to remain “out of the public view” in the “remote and isolated” Ayacucho or “high-land Peru,” from an accessible university setting consisting of scholars (some with political agendas), amongst peasants suffering from extreme poverty, with their leader, Guzman, having a strong relationship with China, ripe conditions for volunteers, and a quest to “secure military resources to sustain the peoples war” (Palmer, 2007). More than 40 percent of the deaths and disappearances reported to the TRC are concentrated in the Andean department of Ayacucho” (Palmer, 2007).

The state’s military was at a disadvantage at the onset when it deployed to the countryside not yielding the general capacity to understand the peasant class’ language. These language comprehension deficiencies drastically hindered the state’s intelligence gathering operations. Both state and counter-state (Shining Path) actors were vying to develop the necessary influence over the population; thereby, swaying the population’s actions to support its respective cause. Ultimately, the longer the population remains in a state of irresolution, the higher their tendency to behave or react violently or erratically, and thus, statehood failure results.

Bruce Porter discusses how modern warfare “helped democratize political life over the long run.” Porter elaborates further on how war is both a “destructive” and “cooperative” phenomenon. The violent behavior or warring of the Peruvian population as previously stated would initially have the affect of fostering “equality and collectivist politics” occurring “only after civil society was strong enough to force political leaders into bargaining position” (Porter, 2001).

To the contrary, it is necessary to be careful when considering the causes of the Shining Path's commission of acts of terrorism strictly limiting its origins to the obvious external factors (i.e., poverty). Although the homogeneous aspects of Peru's external factors are important when investigating the causes of terrorism, some argue that they, by far, are not the only conditions from which terrorism arises.

Audrey Cronin, in fact, argues that there "is no definitive study for the causes of terrorism" but provides explanation for the "research gap" (Cronin, pp. 20–21). Cronin states that it is "impossible to control enough of the potential variables involved to isolate and study only a few" (Cronin, pp. 20–21). She places, in some cases at least, "partial" emphasis on terrorism as "a reaction to the particular political, economic, and historical context within which potential terrorists exist;" as being a result of the "strategic decision of political actors; that different types of terrorism may be caused (or enabled) by different factors; and the preferences of the analyst" (Cronin, pp. 20–21). This being said, Cronin states the importance of a "clear understanding of the sources of" contemporary terrorism thorough the execution of the "four levels of analysis:" Level One: The Role of the Individual, Level Two: The Group or Organization, Level Three: The Role of The State, and Level Four: The International System. Ultimately, Cronin asserts that many factors come into play when trying to establish the how and whys of the causes of terrorism. Remaining objective and understanding the historical context of the terrorist organization's narrative is vital to establishing relevant, useful, and accurate explanations (Cronin, pp. 23–35).

The formula that Leites and Wolf provide concerning the "emergence of growth" of an insurgency and/or civil unrest supports the tenants of social influence theory. Leites and Wolf state, "the environment of a typically less developed country provides the market for" unrest and/or insurgency. "The many deep grievances, frictions, and hostilities that pervade this environment, combined with its social and economic disjointedness and the resources available—including time and effort—for commitment by individuals and groups according to their preferences," are at large, common factors

among insurgency infrastructure growth (Leites & Wolf, 1970). Simply put, people are products of their environments and each choice is a function of whatever that environment may be/or have been.

Leites & Wolf's previously stated assertion is made clear regarding the origins of the Irish conflict and its deeply seeded grievances and hostilities. These grievances and hostilities stem all the way back to "the 1920s when the island was partitioned, and Catholics in Northern Ireland believed that they were on the wrong side of that border," consequently believing "that they had been done out of their political heritage..." (Arthur; Frontline, pp. 1–46). The Protestants, however, believed rights went back to the "Plantation of Ulster" in the 1600s, where they managed to maintain control despite the fact that they had lost control of the remainder of Ireland (Arthur; Frontline, pp. 1–46). Here, two "victim's... clashing" sense of history are used to "justify" their conflicts "in the present" (Arthur; Frontline, pp. 1–46). The collapse of the civil rights campaign in the 1960s gave way to "more demands for greater violence and then greater vigilance" setting the stage for a "civil war between Loyalists and Republicans" (Arthur; Frontline, pp. 1–46). The already weak political process in Northern Ireland "disappeared" leading to the rush to militancy, which subsequently, was the key for those who commanded the agenda (Arthur; Frontline, pp. 1–46) in the region. As it stood, the disintegration of political/democratic process led to militancy and violence, which could be seen as a social adaptation to the environment.

## **B. SIERRA LEONE: DIAMOND POLICY ROLE IN CIVIL DISAPPROVAL/AGGRESSION AS FACTOR OF DESTABILIZATION**

The civil war in Sierra Leone spanning from 1991 through 2002 is another such case of a relatively small nation left with "tens of thousands of deaths" and over "two million" displaced citizens (CIA Factbook, 2009). Much has changed since those horrific times; however, much remains the same; even arguably so, in many ways, (characteristically) the nation may have gotten worse. Although Sierra Leone's military has fully taken over security responsibilities since the U.N. left the country in 2005, the nation still has a long way to go regarding the issues of infrastructure development and

the suspension of rampant corruption throughout (CIA Factbook, 2009). The administration's failure to preserve existing social contracts regarding regulation/law enforcement and civil-security has been a point of contention; consequentially, serving greatly in delegitimizing many of Sierra Leone's efforts to stabilize the nation successfully.

Since the late 1970s, Sierra Leone's diamond mining industry has contributed greatly to continued unrest and subsequent destabilization (USAID, 2001). This analysis provides a better understanding of the characteristics of Sierra Leone's diamond mining policy and the role it played in the nation's destabilization. The transnational implication is that the international community shares the need to ensure foreign and security policy goals are met for the future economic security of all nations for generations to come. This case further explores the policy implications of Sierra Leone's diamond mining industry as they relate to the effective governance of the country and subsequent nation stability.

Yet an additional contributor to nation destabilization, and the policy focus of this case study, is primarily on the governance of diamond-mining countries in Africa against corruption is the Kimberly Process. The Kimberley Process Certification Scheme (KPCS), is a certification process introduced by United Nations Resolution 55/56 that was designed to identify the origin of rough diamonds, which are "free of conflict fueled by diamond production" (DiamondFacts, 2009). It was established in 2003 to stop the mainstream flow of the rough diamond market and to disable rebel group activities (i.e., war and human rights abuses) financed through diamond sales (DiamondFacts, 2009). The countries to be examined in this research are Botswana and Liberia. Given the scope of this assignment, the author only recommends that policy makers further research effects of visceral anti-De Beers campaigns on transparency (MNC-De Beers), as well as the mutual interdependent nature of mining extraction companies and the Private Military Company (PMC) sector's adverse effect on Sierra Leone's legitimacy and held monopoly on the use of force.



## **1. Population/Labor Force Controls**

Land in Sierra Leone is geographically very difficult to govern uniformly and tribal leaders often take advantage of this fact (USAID, 2001). As land is communally owned in Sierra Leone, but dictated by the tribal chiefs, it may be pragmatically integrated into governance measures often as a means for the rural governing elites to utilize nondemocratic methods to control the workers, profits, and development of the respective society (USAID, 2001). As a whole, citizens relatively ignorant of their rights perceive that governing institutions generally make provisions to mitigate their concerns for the preservation of basic needs within a social structure. Their typical tendency is uniformly to remain amicable to the conditions as set by governing policies of the Chiefdom's administration (USAID, 2001, p. 8). Simply, many regimes understand that people (generally) tend to go with the flow when they are basically content, and thus, strive ultimately to influence citizen's "conspiring" to create systems of "virtual servitude" over time (USAID, 2001, p. 8).

Societies like Sierra Leone prone to continuous resource mismanagement, rampant violations of civil liberties, and little resolution of grievances; become increasingly dissatisfied. This instance has been historically seen in many nation-states fouled with corrupt and inadequate leadership, such as Sierra Leone (USAID, 2001, p. 8). Civil support of incumbent leaders transitioned to the growth and maintenance of rebellions with subsequent acts of extreme violence and terror. However, before investigating the evolution of civil-regime commitment, it is first necessary to define democracy and how it relates.

## **2. Democratic Type Governance Structures**

Sierra Leone's government type is a constitutional democracy (CIA Factbook, 2009). A democracy is defined as either a political government executed by the people (direct democracy) or the power to govern is granted to the elected representatives (representative democracy) (WikiDemocracy, 2009). Utilizing their global model to identify factors associated with the risk of all types of state failure in all countries, the State Failure Task Force (SFTF) found that "the strongest influence on the risk of state

failure” was regime type (SFTF, 2000). Additionally, the task force also found “the odds of state failure to be seven times as high for partial democracies as they were for full democracies and autocracies” (full democracies and autocracies have roughly equivalent odds of failing) (SFTF, 2000, p. 34). Full democracies/autocracies typically have stronger leaders and more effective legislatures than countries with partial democracies. The adequate governance of chiefdoms can present issues in some parts of Sierra Leone due to their geographically challenging locations. Tribal chiefs are often corrupt and unfair advocating uneven wealth/property distribution and other fraudulent policies and institutional procedures. SFTF reports that effective lawmaking legislature’s capabilities and “executive constraining” powers are the most discernible differences between the characteristics of full and partial democracies (SFTF, 2000, p. 36).

Arguably, social contracts are often not met by the broken regime of partial democratic structured governments. Citizens become increasingly frustrated, displeased, and ultimately, become detached from their perceived responsibilities to the regime’s administration. Feelings of indignation begin to arise as society develops feelings of having been wronged. When the administration’s formal grievance process is tested and found to be inadequate, civil unrest occurs; further placing strain on the regime’s already diminishing capacity. As capacities fail, frustrated social groups begin to resort to taking independent or group action outside of the law. Civil unrest may further escalate into committing acts of terror as a means of coercing the sought after change. An evolution of citizen approval and disapproval of regime follows to depict this assertion further.

### **3. Mining and Operational Effects on Sierra Leone Stability**

Governing regulations in Sierra Leone for the mining of diamonds are the Kimberly Process and Mines and Minerals Acts of 1994 and 2003 (adding specific penalties). Mining administration, field monitoring, and licensing are governed by the Ministry of Mineral Resources. The Kimberly Process focuses on the external or international implications of the problem. The licenses recognized by the Mines and Minerals Act are exploration, mining, exclusive prospecting, and non-exclusive prospecting. Sierra Leonean citizens are the only people that can be issued artisanal

mining licenses. All miners, dealers, and exporters are required to obtain licenses from the Director of Mines. Miners may only sell diamonds legally to licensed dealers or exporters and dealers may sell only to exporters. Mines monitoring officers and mine wardens monitor through the field system of their respect office (Coakley, 2004).

The Banking Act of 2000 was enacted by Parliament to facilitate new export and valuation procedures and “the Bank of Sierra Leone issued new regulations in 2001” (Coakley, 2004). The responsibilities of diamond trade control requirements as set forth by The Kimberly Process Certification System (KPCS) were transferred from the Government Gold and Diamond Office of the Ministry of Mineral Resources to the “Gold and Diamond Department of the National Revenue Authority” in 2004 to implement Sierra Leone’s “participation and compliance with” the international standards (Coakley, 2004). Also, to promote foreign investment, the Parliament passed a new “Investment Promotion Act” in August of 2004 (Sierra Leone Parliament, 2005).

Bo, Bombali, Bonthe, Kailahun, Kambia, Kenema, Koinadugu, Kono, Moyamba, Port Loko, Pujehun, and Tonkolili are the only government recognized chiefdoms in Sierra Leone. Chiefdom mining allocation committees were created to screen license holders prior to their application submittals to the Ministry. This process was enacted to address the issue of outside artisanal and small-scale miners “gaining access to mining licenses of Chieftaincy lands” (Coakley, 2004). Slowly but surely, Sierra Leone and the International community appear to be working towards its stability.

Although geographic issues present challenges to governance in rural areas; internationally, the Kimberly process is generally doing well. In general, it is forcing the legal channeling of diamonds into legitimate regulatory institutions, such as the Government Gold & Diamond Office (GG&DO). This channeling enables an increase in accountability procedures, adequate taxation, and greater generation of revenue and subsequent collections for the government. These increased revenues in turn can be utilized for community capacity building. Arguably, the greater and more affective the capacity building efforts, the greater the tendency towards state institutional legitimacy and lasting stability (Maconachie, 2008).

Sierra Leone and other nations should thoroughly review and understand this fact when making its policy and strategy regarding diamond mining as it relates to regime consistency, effectiveness, organized revolt and acts of violence. Corrupt regimes leaders continuously attempt to impose upon and solidify controlling relationships over the people. All the while, these corrupt elites continue to manipulate equality for their own benefit, such as with Sierra Leone's tribal chiefs and citizens. A prudent look at the history can tell them where they have been; however, a look at areas where successful governance is traditionally expected regarding the provision of basic human needs can be a start for a plan for the future.

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## **V. CONSEQUENCES**

### **A. INADEQUATE AND INEQUITABLE SOCIO-POLITICAL STRUCTURES LEADING TO MONEY LAUNDERING, TERRORIST NETWORKING AND SUBSEQUENT STATE INSTABILITY**

This thesis has established that the quality of a state's socio-political structure invariably contributes to the soundness of the basic installations, facilities, and services on which that state's continuance and growth urgently depends. Examples of such structures include transportation, educational facilities, communication systems, electricity, and roads. When installations, facilities, and services fail the citizens by not meeting their needs, these inhabitants begin to find alternative ways, outside of legitimate systems, to meet their respective requirements. Less developed countries than those with stronger infrastructures may tend to have weaker policy and enforcement mechanisms in place. These policies and enforcement mechanisms most often render the incumbent administration deficient or negligent regarding the adequate execution and management of its institutional affairs. Bryan Walsh describes the decline of this type administration's ability to regulate itself as reaching its "tipping point" (Walsh, 2007). Walsh describes tipping points as "the levels at which the momentum for change becomes unstoppable" (Walsh, 2007). The context of the author's analogy is that the institution reaches its threshold after being in a state of decline for so long that its own collapse is imminent given the constructs of the infrastructure's neglect and/or criminal activity that led it to decline in the first place.

Additionally, note how organized crime and/or terrorist leaders can play a significant role, and even benefit, from an administration's collapse utilizing Malcom Gladwell's general theory and premise regarding influence (Gladwell, 2000). Effectively, the institution fails in its duty or obligation of adequately assisting the citizens in meeting their basic needs requirements by failing to managing social order requirements in that particular community. Overall, the failing institution begins to lose social support, reliance, and thus, legitimacy.

Further contributing to the weakening of the social infrastructure is the criminal element's progressive exploitation of the fact that illegal activities are not clearly or uniformly defined within weak social systems. The law, under these circumstances, is then subjected to exploitation and taken out of context by both criminals and law-abiding citizens alike. Clear and enforceable legal instruments and systems provide a framework for law-abiding citizens to follow in society, which protects their liberties. A major concern here is essentially the existence of a lack of clear perception and consensus regarding what is right and wrong among the people. Legal instruments are deemed legitimate when they are generally fair and equitable across the spectrum of the social systems in which they are employed to protect. These legal instruments are in place to uphold the law, and ultimately, limit losses regarding the general liberties of the citizens. However, when the regulations/laws that are in place are unclear, criminal activity begins to emerge. Criminals take advantage of the weak regulations by making unethical use of these flawed regulations for their own advantage and profit. Weak regulations cloud social progress by creating ambiguity regarding what is legal or illegal conduct. Given the provisions of the previous assertions, one can begin to conclude that living in societies with weak infrastructural capacity coupled with unclearly defined rules and regulations within that society, creates various problems for that society. Historically, when governing administrations allow social contracts to fail regarding provisions for the people, the general population may begin to succumb to the influences of the criminal element, as well as the social conditions that have degraded their infrastructure in the first place. Resultant of the prevailing circumstances, the citizens increasingly begin to press the threshold of legal activity until, ultimately, they begin to disregard the legitimacy of the law altogether. At this point, existing laws become just barely enough to be perceived by the citizens, with little or no strength to prevent marginal or criminal activity (Walsh, 2007). Criminal activities that thrive under these conditions often consist of financial crimes, such as money laundering.

## **B. MONEY LAUNDERING**

Money laundering is the movement of various forms of funds produced from “illegal activities through legitimate financial institutions and businesses to conceal the source of the funds” (IFAC, 2004). The Office of the Comptroller of the Currency (OCC) defines money laundering as “the criminal practice of filtering ill-gotten gains or “dirty” money through a series of transactions, so that the funds are “cleaned” to look like proceeds from legal activities” (OCC, 2002). They further discuss how money laundering is kept in force by criminal activities, and subsequently, “conceals the true source, ownership, or use of funds” (OCC, 2002).

The issue of money laundering has continued to develop over the years involving some significant changes. With the development of instruments and services provided by the financial sector and its institutions, come potentially greater opportunities for drug dealing, trafficking, and other serious criminal offenses adequate channels for their operations/activities (IFAC, 2004).

The OCC describes the three steps of money laundering as being: “1) Placement—placing, through deposits or other means, unlawful proceeds into the financial system, 2) Layering—separating proceeds of criminal activity from their origin through the use of layers of complex financial transactions, and 3) Integration—using additional transactions to create the appearance of legality through the purchase of assets” (OCC, 2002).

Measures implementing checks to verify and preempt issues of noncompliance are imperative to a healthy anti-money laundering program (OCC, 2002). This program should monitor risks associated with transactions and reputation, as well as include “opening controls and the monitoring and reporting of suspicious activity” (OCC, 2002). By ensuring that financial regulatory standards of compliance are being met through continual comparison of these programs with the highest anti-money laundering prevention measures and standards, legitimate institutions can potentially moderate their long-term profit losses by remaining on track by use of healthy regulatory practices.



Further, the financial sector can mitigate unwanted “exposures” to activities that enable money laundering, terrorist financing, and subsequent socio-economic infrastructural destabilization (OCC, 2002).

### **C. EVOLUTION OF FINANCIAL COLLAPSE AND RISE OF ORGANIZED CRIME IN RUSSIA**

From times of its accelerated agricultural and industrial productivity, to its political and economic reforms in 1980s, to its present times of continued stability initiatives structured towards international growth, Russia has dealt with the debilitating effects of money laundering. Assertions have been made that the political and economic reconstruction efforts of the late 1980s associated with Perestroika (“restructuring”) caused Russia’s collapse (Rempel, 1996). Perestroika was said to have been responsible for the end of the Cold War (Heuvel & Cohen, 2009). In short, the Gorbachev administration’s initiative to reform the political and economic foundation and create a new, stronger Russia, failed. With strict government controls remaining over Russia’s primary means of production, decentralization of government with remaining governmental price controls, prevention of private party ownership, the inconvertibility of the ruble, and other factors, Russia had virtually lost all control over its financial conditions and drastically exhausted both political and economic consistency. This virtually ruined the central governing body’s capacity to control the state. Arguably, a top-down planning approach with little foresight was taken by the administration when reforming essential political and economic policy. Corruption rose and former government officials profited significantly (Pointkovsky, 2009). Pointkovsky comments on the post-Perestroika governmental structure with his statement, “we would say that today's Central Committee members, secretaries of regional committees and KGB Generals (whatever their titles may be now) have become multi-millionaires in dollar terms. Modern ‘politburo members’ have become multi-billionaires” (Pointkovsky, 2009). The assertion here is that with prior connections from their previous positions, former government officials quickly became rich, businessmen, while the poor became

poorer. Corruption flourished and the accelerated emergence of economic disaster proved to facilitate the malignantly uncontrollable rise, demand, and utility of organized crime significantly throughout the country (Pointkovsky, 2009).

#### **D. BRIEF COMPARISON OF RUSSIA'S PERESTROIKA TO CHINA'S DENG XIAOPING'S ECONOMIC REFORMS**

A brief comparison of Russia's Perestroika to China's Deng Xiaoping economic reforms provides an estimation of the similarities and differences between the two communist states. As a general rule of thumb, a regime's administrative infrastructure should, arguably, be placed into some level of review on a regular basis to make the social systems more efficient by ending abuses or malpractices within those respective regimes. Upon completion of such a regular review process, a refinement and subsequent introduction of improved policies and procedures should be put into place that reflect the current social and institutional demands and requirements to meet the countries basic functional needs adequately.

The origins of both Russia and China's reform periods spanned from late 1970s to present day. Not only were the times of the two nation's reform periods similar, but they were both communist regimes as well. Both China and Russia were adamant about improving its respective societies by attempting to modernize their economies.

Key focuses of Russia's reconstruction regarding its economic and political systems included political liberalization through multi-candidate ("but not multi-party"), "elections for local Communist Party (CPSU) and Soviets, "meaningful" changes of government structures, such as the formation of a Congress of People's Deputies, dissolution of the Supreme Soviet, and a reservation of one-third of the parliamentary seats to ensure communist majority (WikiPeristroika, 2010). Another key factor of Russia's reform period was the enactment of the Law of Cooperatives. This law allowed the private sector to own businesses in the manufacturing, services, and foreign-trade sectors. Although admirable in initiative, the judgment of policy makers is certainly in

question here (WikiPerestroika, 2010). In the end, the framework was not in place to support failing business and the government was called on to alleviate their economic failures (WikiPerestroika, 2010).

The primary objective of the Chinese reconstruction period was to “generate sufficient surplus value to finance the modernization of the mainland Chinese economy” (WikiChinaEconomicReform, 2010). Key focuses of China’s reconstruction efforts regarding its economic and political systems included an appeal intended to motivate “workers and farmers” to “produce” large agricultural surpluses and to “eliminate” economic imbalance that had historically been “common in command economies” (WikiChinaEconomicReform, 2010).

Both countries’ reform initiatives had significant impacts on various areas of their respective socio-political and economic systems; however, China’s Gross Domestic Product (GDP) consistently grew while Russia’s GDP fell since inception (WikiRussia&China, 2010).

## **E. MONEY LAUNDERING CONDITIONS IN RUSSIA**

John Walker’s global money laundering assessment in 1998 provided that Russia ranked third in the following three categories: top 20 origins, flows, and destinations of laundered money (Walker, 1998). These statistics leave no question as to why the Financial Action Task Force on Money Laundering (FATF) placed Russia on the “tax havens” blacklist for the country’s susceptibility to financial crimes due to its inadequate money laundering prevention measures (Minaeva & Aksenova, 2007).

In his journal article regarding a publication analyzing political reform in Russia, India, and China, Jack Reardon discusses how the “dismantling” of the Soviet state and privatization of resources led to the spontaneous rise of a market economy in Russia (Reardon, 2004). The decentralization caused by Perestroika subsequently led to unprecedented bottlenecks instead of its intended streamlining of the system. Following poor spending practices, Russia’s central government continued to support unproductive businesses and other poor fiscal practices. Local governments ultimately

began to withhold tax revenues. Finally, the accumulation of its failed circumstances further led to the breakdown of traditional supply and demand relationships without the formulation of new, more productive ones (Wiki Perestroika, 2010).

Since the late 1980s and 1990s, Russia has come a long way. The country's 2001 ratification of the "Council of Europe Convention on Laundering, Tracing, Seizing and Confiscation of Proceeds from Crime (1990 Convention)" played a very important role in leading the way for Russian initiatives created to hold financial institutions responsible for financial crimes, such as money laundering (Minaeva & Aksenova, 2007). This initiative nationalized money laundering legislation, which transferred ownership or control of money laundering agenda to the government at large. Russia now had the authority, as a whole, to employ the full extent of its resources (within legal bounds) to nationally impose and enforce money-laundering initiatives (Minaeva & Aksenova, 2007).

However, the tremendous positive impact of Russia's nationalized anti-money laundering legislation is often overshadowed by, at minimum, a few significant factors: 1) that it lacks the rigid, basic structure(s) necessary to handle higher levels of corruption and "organized crime prevention and deficiencies in the Money Laundering Law" itself (overburdening banks and its operations, 2) the lack of "clear definitions" in the Money Laundering Law overall, and 3) employee training regiments are often inefficient, and thus, ineffective against money laundering (Minaeva & Aksenova, 2007). The lack of clear definitions, infrastructural capacity, employee education, institutional coordination of technological tracking and communications all often leave room for the criminal element and noncriminal element alike, to misinterpret and exploit the financial systems, and subsequently, the policies in place to prevent such criminal activities (Minaeva & Aksenova, 2007).

Given all the limitations of Russia's policy, infrastructure capacity in preventing corruption is arguably one of its largest problems for the future. Transparency International provides various survey and indices for consumers to review and analyze. Its Corruption Perceptions Index (CPI) presents a country's ranking, score, and various other criteria to determine the confidence of a particular country's level of corruption for

the survey's reporting period with a 90% confidence rating. Based upon the 2009 results, Russia is ranked 146th out of 180 countries in corruptness (Transparency International, 2009).

#### **F. KEY FINANCIAL SECTOR AND TERRORIST FINANCING LEGISLATION**

Many may see counter anti-money laundering initiatives as a host of seemingly unmanageable contentions between law enforcement/regulatory bodies and collective criminal element as a whole. Implications associated with the preceding statement are only true in part. Citizens have an obligation to support those systems devised to withstand the perpetually debilitating conditions placed upon them by the tireless attacks of the criminal element. The quality of the systems put in place to protect institutions and subsequent liberties against criminal attack, is only as effective as the level of support.

Through the support of many law abiding advocates of anti-money laundering and terrorist financing initiatives, the U.S. government has “imposed many legislative and regulatory standards” to prevent and discourage money laundering at large (Transparency International, 2009). The OCC reports the most significantly impacting of these standards as being “the most significant of these are: the Bank Secrecy Act (Currency and Foreign Transactions Reporting Act of 1970); the Money Laundering Control Act of 1986; the Anti-Drug Abuse Act of 1988; Section 2532 of the Crime Control Act of 1990; Section 206 of the Federal Deposit Insurance Corporation Improvement Act of 1991; the Annunzio-Wylie Anti-Money Laundering Act (Title XV of the Housing and Community Development Act of 1992); the Money Laundering Suppression Act of 1994 (Title IV of the Riegle-Neal Community Development and Regulatory Improvement Act of 1994); the Money Laundering and Financial Crimes Strategy Act of 1998; and the USA PATRIOT Act (Title III, International Money Laundering Abatement and Anti-Terrorist Financing Act of 2001)” (Transparency International, 2009).

The scope of these legislative and regulatory standards ranges from fighting drug and human trafficking, money laundering, and other crimes; enhancing existing initiatives by making certain violations criminal and federal offenses; reinforcement

through increased sanctions and penalties; empowering federal banking systems to work with foreign banking authorities; allowing supervisory authorities greater latitude in regards to accessing banking information; development of advanced examination procedures, government authority to combat international terrorism (Transparency International, 2009).

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## **VI. COUNTERMEASURES**

### **A. UNDERMINING TERRORIST NETWORKS AND MONEY LAUNDERING SCHEMES**

“In the Information Age, they ask, how do you attack, degrade or destroy a small, shadowy, globally distributed, stateless network of intensely loyal partisans with few fixed assets or addresses?” (Garreau, 2001). In this question posed by the Garreau group, the group provides its comparison of the decisional concerns of wars past and present as they relate to how to undermine the critical momentum points necessary to disrupt various networks. Garreau argues his point that utilizing, for instance, a bomber to deal with a “symmetrical” threat in past wars was an adequate combat response to a “toe to toe” battle between symmetric industrial powers “throwing steel” at each other (Garreau, 2001). These tactics may have been effective for that particular time and under those circumstances; however, against the asymmetrical networks of today’s terrorist groups, this method has proven historically to be ineffective.

Although, smaller terrorist networks cannot withstand the brute combat power and tremendous logistical sustainment capacities of today’s conventional fighting forces, one can clearly see the many modes/methods utilized by terrorist networks and their decision to maintain its asymmetric organizational structure has proven to be a useful tool. It is necessary to understand briefly the characteristic organization or nature of the terrorist network to undermine its operations. Similarly and understood (generally by many if not most), terrorist groups exhibit high capacities for mobility, tend to behave (or are capable of) acting to sustained acts of extreme acts of violence for their respective ideology, tend to have relatively various extremes and schemes of social and economic supporters and sympathizers, are highly or technically skilled, informed, and able to recruit sufficiently to accomplish its mission, to say the least.

Garreau makes the assertion that human networks are “political and emotional connections among people who must trust each other in order to function” (Garreau, 2001). By his assertion that emotions are people’s respective internal state and are



subjective, relatively involuntary and physiological in nature, one can proceed to conclude that emotions are predominated by a response to a specific situation or object. By indirectly manipulating these variables, the author asserts that one can manipulate an individual's emotions. Subsequently, if emotions are significant contributors and motivations to actions, by manipulating the variables that affect change in one's emotional state, it is possible to bring about variable changes within the human network systems. For the purpose of this thesis, the author argues that finances are significant factors, that when depleted, can disrupt the emotional state, and subsequent human network system as a whole.

Previous points being made, and in light of their functional character traits of terrorist (human) networks as a whole, the author argues that developing, implementing, and enforcing stringent anti-money laundering policies and procedures tremendously hinders the capacity for terrorist networks to operate, and in many cases, to exist all together. Earlier mention of the conventional force's ability to amass a larger number of forces and move sustained and unprecedented metric tons (of gear and equipment), through its logistical component, prefaces his point that none of these logistical capacities can be achieved if financing for these components failed to exist. Terrorist networks, although they may take relatively little financing to operate in many instances, take sustained financing (which varies dependent upon the respective objective) to bring these objectives to fruition the same as its larger, more conventional counterpart's operations.

Uniforms, gear, equipment, transportation, food, explosives, training, and information, all present some monetary cost to the terrorist network and should be accounted for in every planning evolution, and for every mission objective. Ultimately, sustaining the influx of financing is critical to the terrorist network is critical. When the finances of terrorists are ill gotten through illicit means or are irregular in nature and are placed within legitimate financial systems, and these financial systems adhere to their respective anti-money laundering directives, most of the sources that can be detected, can be traced. This being the case, the author repeats his assertion that money flow can be

detected if conspicuously placed within legitimate financial institutions as they exist today. By disrupting these funds, officials can indirectly impact the emotional state, and subsequent motivations for that human network to act in general.

## **B. FORTIFYING DEMOCRACIES AND COUNTERING TERRORISTS**

Countermeasures for consideration for democratic-type regimes that are not full democracies can consist of: 1) not viewing every reversal of democracy as a major setback, learn from the experience and a lot time for growth; 2) when reviewing policy options for democratic material well-being and good governance/legislative options, consider all possible risk-factors; 3) ensure the legislature has effective law-making capacity and thorough controls of executive powers; 4) continuously consider robust dispute resolution mechanism commensurate with prevalent social demands; and 5) overall, ensure regime administration maintains vigilant observation programs to watch over consistency of the democracy (SFTF, 2000).

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## **VII. CONCLUSIONS AND RECOMMENDATIONS**

In closing, regardless of whether society wants to admit its existence, a relationship exists between needs, attitude, democratic regimes, nation stability, financial crimes, and terrorist action. These characteristics should be thoroughly reviewed and understood when making policy and strategy regarding regime consistency and effectiveness as it relates to organized revolt, acts of money laundering and terror actions.

Various strains of socio-economic and political factors can lead to collusive acts, such as money laundering, and illicit activities by criminals and terrorist groups. Again, the author asserts that the world can witness the development of fewer terrorist networks, as well as fewer of these acts if every country were an established and functioning democracy because these democracies arguably allow for better governing and facilitate systems of economic prosperity.

Restating the author's purpose of analyzing various destabilizing contributors to nation instability, one can conclude through these findings that there is a continued need to analyze these factors. The international community, as a whole, must contribute wholeheartedly with a commitment to the long-term of the nation stability agenda. These previously mentioned factors would contribute greatly to the cause and suitably help address U.S. and international community concerns regarding the transnational need for adequate understanding of the characteristics of failed nation-states. By focusing on specific nation-state destabilizing factors, such as money laundering, etc., one can ascertain from these findings how terrorist and other illicit criminals could potentially continue to exploit the weaknesses in a government system, further accelerating the degradation of its social, economic and political consistency and subsequent stability, if left unchecked. One can also generally ascertain as to which regime type most suitably contributes to the rise, growth, and sustainment of various illicit activities utilized by terrorist and criminal organizations alike to take advantage of and weaken their infrastructures.

Democracies have historically exhibited more consistent and stable governments with greater civil compliance and less violent activity formally characterized as terrorism. Further, it is very important to be able to see the relationships and assertion to mitigate the many challenges that accompany any organized revolt threatening imminent terrorist action. Now is the time to look deeper ahead.

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